



**Director of  
Central  
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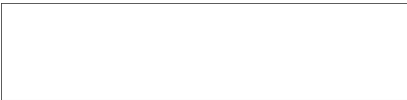


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**PANAMA-CENTRAL AMERICA: Contadora Meeting**

*A summit meeting in Mexico this weekend of the leaders of the Contadora countries—Panama, Colombia, Venezuela, and Mexico—may determine the future success of the mediation effort in Central America.* [REDACTED]

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The US Embassy in Panama reports that President de la Espriella plans to encourage the Contadora group to adopt a tougher line in dealing with regional tensions. The four presidents will meet in Cancun at the request of Mexican President de la Madrid. The meeting reportedly was called to decide whether to abandon the effort or to mediate more actively. [REDACTED]

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De la Espriella believes that, if Managua refuses to end its interventionist policies in the area and to relax political restrictions at home, Nicaragua should be identified as the source of regional instability. The President has endorsed National Guard Commander Paredes's warning to Cuba and Nicaragua that their involvement in the region could provoke a break in relations with Panama. The tough position adopted by Paredes reportedly elicited a harsh written reply from President Castro, who wants to discuss the matter. [REDACTED]

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**Comment:** The proposed adoption of a firm policy toward Nicaragua by the Contadora countries is likely to meet with stiff resistance from Mexico, which has sided with the Sandinistas' call for bilateral negotiations with Honduras to ease regional tensions. A bitter debate over the issue would prompt further divisions within the group and jeopardize a meeting with five Central American countries scheduled for later this month. [REDACTED]

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### **Libya-Chad: Qadhafi's Next Moves**

*Continued successes by President Habre's troops against Libyan-backed dissidents will force Libyan leader Qadhafi to make a difficult decision about his next steps in Chad.* [redacted]

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Domestically, Qadhafi is deeply concerned about his security following a number of plots and coup attempts originated by disaffected officers. [redacted]

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**Comment:** If Habre's troops sustain their advances in the northeast and threaten Faya-Largeau, dissident leader Goukouni will be likely to ask for Libyan air support. Tripoli, however, probably would first try to salvage the situation by providing more weapons and advisers. [redacted]

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Qadhafi had hoped that Libyan statements that foreign intervention in Chad would be "an act of war" against Libya would discourage France and African states from aiding Habre. He now may be uncertain whether Libyan intervention would prompt Paris to send troops and fighter aircraft. [redacted]

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The Libyan leader is likely to view direct intervention as a last resort. He has sought to keep support to the dissidents hidden to avoid domestic and foreign criticism. Moreover, the invasion of Chad in 1980 was unpopular with the Libyan military. [redacted]

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[REDACTED]

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**ITALY: Socialist Leader's Position on INF**

*Socialist Party leader Craxi has assured the Christian Democrats, Social Democrats, Republicans, and Liberals that INF deployment will proceed on schedule if he becomes prime minister.* [REDACTED]

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An aide to Craxi has told US Embassy officials that Craxi is "absolutely firm" that INF deployment will proceed on schedule. The aide says he is convinced that the only remaining potential threat to deployment comes from an anticipated effort by the "extreme left fringe parties" to push for a debate and vote on deployment in the parliament. He believes, however, that the situation in the parliament can be controlled. [REDACTED]

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[REDACTED]

**Comment:** The increasingly fragile coalition governments have managed to maintain steady support for an INF policy that does not have broad public backing. Opinion polls have consistently revealed greater opposition to INF deployment in Italy than in any other basing country. One recent poll showed 59 percent opposed to deployment, even if the Geneva talks fail. [REDACTED]

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Although Craxi is committed to INF and is virtually certain to try to limit debate on the question if he becomes prime minister, his position within the country at large and probably in his own party is a minority view. If he were to fail to prevent a parliamentary vote on INF, the issue could become more difficult for the government to handle. This would particularly be the case if sizable opposition to INF emerged in voting by secret ballot. [REDACTED]

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[REDACTED]

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**BRAZIL: New Austerity Measures**

*Brasilia's announcement this week of tighter austerity policies opens the way for a reconciliation with the IMF and other foreign creditors but is provoking hostility in labor and political groups.* [ ]

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The new measures limit automatic increases in wages, rents, and mortgage payments to 80 percent of prevailing inflation, link supplementary wage increases more firmly to productivity, and allow some companies to negotiate wage contracts. In addition, the administration recently cut public spending, increased taxes, adjusted prices, and reduced credit subsidies. [ ]

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Government officials say the austerity policies will enable Brazil to sign an agreement with the IMF next week for release next month of a delayed loan disbursement. The agreement will facilitate the government's request for a further extension of repayment on a \$400 million short-term loan from the Bank for International Settlements. [ ]

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Labor and opposition party spokesmen have attacked the austerity policies as unfair to workers and unlikely to solve the nation's economic problems. At least one political leader says worker discontent over the measures will increase support for a one-day general strike scheduled for next Thursday. [ ]

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**Comment:** The prospect of a severe decline in real wages may provoke further strikes and demonstrations, following walkouts last week by petroleum and metal workers. The government is politically more vulnerable with President Figueiredo out of the country for medical treatment, but senior officials in Brasilia are likely to continue the austerity program. [ ]

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By partially curtailing indexed wage increases, Brasilia probably can obtain some short-term relief from spiraling prices. More restrictive fiscal and monetary policies will be needed, however, for more lasting effects. [ ]

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**PERU-CUBA: Possible Changes in Insurgent Tactics**

*The recent increase in Sendero Luminoso terrorist attacks in Lima reportedly has attracted growing Cuban interest in the group and could reflect a new emphasis on urban operations.* [redacted]

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The terrorists' assault this week on the headquarters of President Belaunde's party barely missed several important government and party figures. Documents captured earlier by the police had indicated that the group was planning the assassination of key ministers.

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**Comment:** Further attacks directed against political leaders and major urban targets are likely as the insurgents try to secure more publicity and provoke repression in the capital. The new tactics may be primarily an effort to divert the Army's attention from the insurgents' stronghold in Ayacucho Department, however, rather than a fundamental shift away from the group's Maoist strategy of long-term rural warfare. [redacted]

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The group's continued resilience is likely to produce renewed public pressure on Belaunde for tougher measures. These may include imposing the death penalty for terrorism. [redacted]

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For several years Havana has avoided contact with the insurgents, but Castro apparently is impressed by the group's recent activities and may now believe it is a viable revolutionary movement that Cuba can no longer afford to ignore. Until the Cubans are convinced of the Sendero Luminoso's staying power, however, they probably will [redacted] extend only a minimal level of assistance. [redacted]

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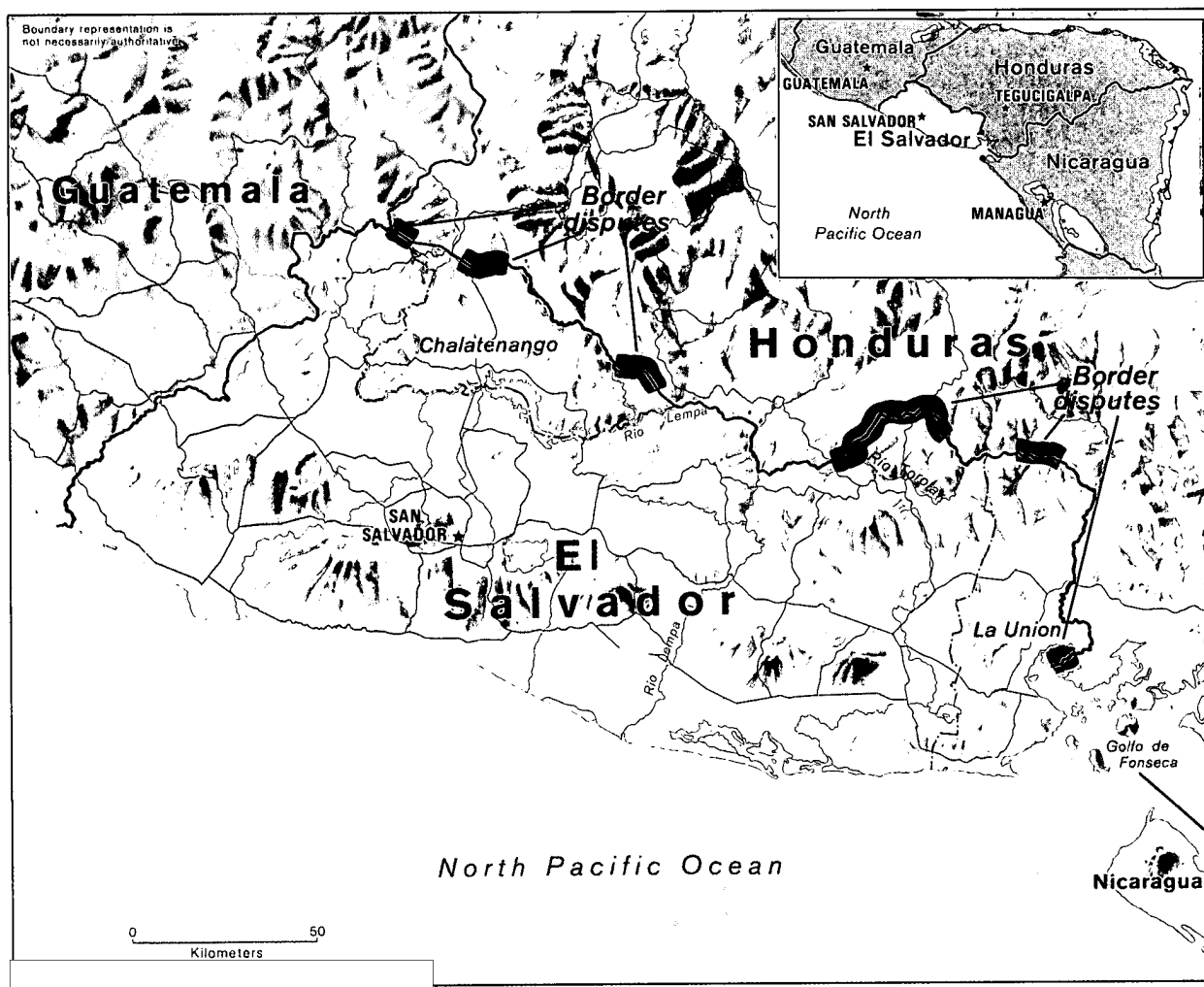
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**EL SALVADOR-HONDURAS: No Movement in Border Dispute**

*El Salvador remains intransigent in its territorial dispute with Honduras despite Honduran cooperation in military affairs.*

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Salvadoran Foreign Minister Chavez Mena says his government will not negotiate on any of its territory, including the islands in the Gulf of Fonseca. Honduras considers these islands essential to its claims for access to the Pacific. Furthermore, Chavez Mena has denied a press report from Tegucigalpa that claimed Salvadoran President Magana would visit Honduras next Wednesday for discussions on the border dispute.

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The chairman of the Salvadoran Border Commission says there is no relationship between the recent agreement to train Salvadoran troops in Honduras and the border negotiations. He states that, if Honduras intends to settle the dispute within 90 days, it would mean that Tegucigalpa has renounced all claims to Salvadoran territory.

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**Comment:** Tegucigalpa probably will continue to push for a rapid and favorable resolution of its territorial dispute with San Salvador in return for allowing Salvadoran [redacted] at the new training facility in Honduras. By treaty, however, the two countries have until 1985 to reach a settlement. El Salvador thus is likely to continue to resist any Honduran effort to link the two issues.

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**AUSTRALIA-NEW ZEALAND-US: ANZUS Meeting**

*Australia's Foreign Minister Hayden and Defense Minister Scholes, who will be attending the annual ANZUS Council meeting in Washington next week, plan to ask for changes in the 32-year-old alliance to bring it up to date.* [redacted]

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Prime Minister Hawke strongly supports ANZUS. Nevertheless, pressure from the Labor Party's left wing and Canberra's desire to appear less dependent on the US in defense and foreign affairs has prompted him to suggest making some changes. He also wants to reexamine several aspects of US-Australian bilateral security cooperation. [redacted]

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Canberra's proposals for modifying ANZUS have received a cool reception in Wellington. New Zealand Foreign Minister Cooper reaffirmed his government's position before leaving for the US, stating publicly that Wellington sees no need for changes. [redacted]

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**Comment:** The Australians are likely to seek a clearer definition of the geographic scope of the treaty, in particular whether it applies to the Middle East. They probably also will ask the US to outline the circumstances in which the treaty could be invoked to help Australia face a threat from another country. [redacted]

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In discussing bilateral defense cooperation, Canberra is likely to focus on the operations of the joint communications facilities in Australia. The government wants to increase public disclosure of the functions of the installations to undercut unfavorable publicity. [redacted]

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**LEBANON: Fighting in Beirut**

The day-long clash yesterday in West Beirut between Lebanese Army units and Shia Muslim fighters will further erode relations between the central government and Shia politicians. The fighting broke out after Shia squatters resisted attempts to evict them from illegally occupied buildings. According to press reports, five persons were killed and several others were injured. [REDACTED]

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**Comment:** Shia squatters, who moved to the Beirut area during the civil war, occupy large sections of the western part of the city and the slums bordering it on the south. The incident may encourage the Shia to cooperate more closely with the Druze in their opposition to the government. [REDACTED]

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**POLAND: Bank Rescheduling Agreement Near**

The US Embassy in Warsaw reports that Western bankers and Polish Government officials have almost reached agreement in principle on rescheduling the nongovernment debt for 1983. The Poles softened some of the terms they originally demanded from the bankers by offering to reduce the length of the rescheduling from 16 years to 12 years and the percentage of recycled interest payments from 75 percent to less than 60 percent. [REDACTED]

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**Comment:** Another round of talks probably will take place early next month to wrap up the agreement. The Poles appear to be making more concessions than the bankers in the discussions. An agreement with bankers on rescheduling will increase the pressure on Western governments—which plan to hold a meeting in Paris on 29 July—to proceed with rescheduling talks with the Poles soon. [REDACTED]

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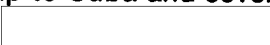

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**FRANCE-NICARAGUA: French Ambassador's Views**

The French Ambassador in Managua has informed the US Embassy that he is becoming increasingly disenchanted with the Nicaraguan leadership. His view is that the authoritarian Sandinistas lack interest in the democratic process. He also is concerned about the possibility that the US might become involved in a war between Nicaragua and Honduras and warns that France would have to oppose US intervention. In addition, he said the French will participate in a bilateral commission on aid to Nicaragua next week, although Paris is cautious about making major new commitments.

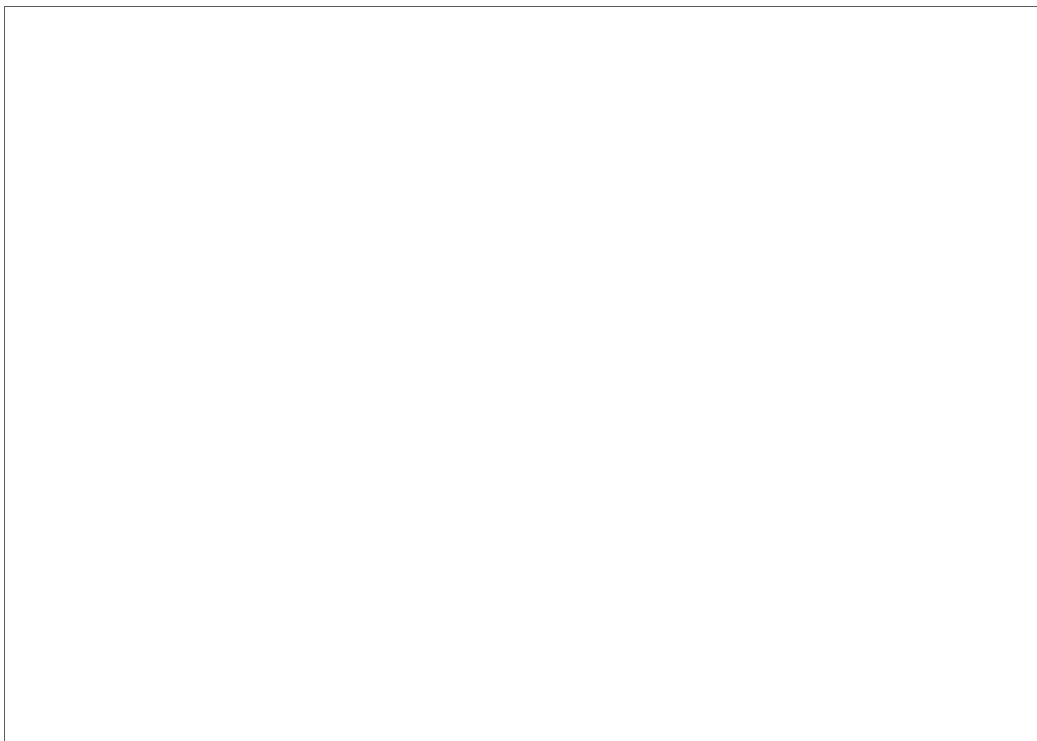


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**Comment:** The Ambassador's views on the Sandinistas could have an effect on French policy toward Central America. On the other hand, President Mitterrand has other advisers—including his special ambassador to Latin America, Antoine Blanca—who are more sympathetic to the Sandinistas and other leftist movements. Moreover, Mitterrand will receive an assessment from Foreign Minister Cheysson, who will start a trip to Cuba and several other Latin American countries this month. 

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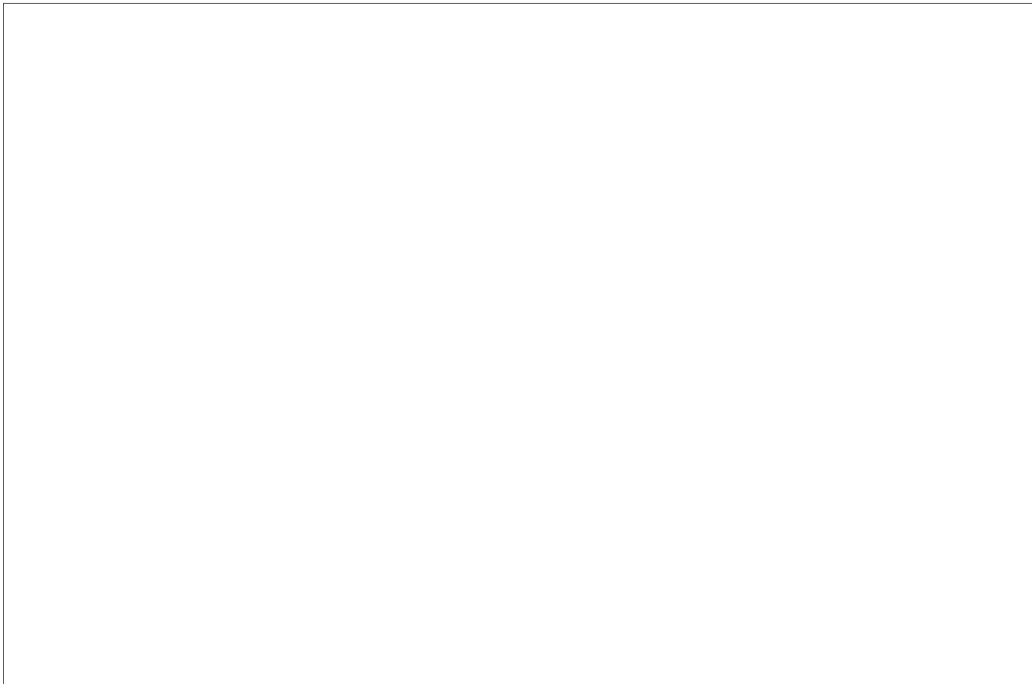

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**YUGOSLAVIA: Debt Repayment Problems**

Sources of the US Consulate in Zagreb say Croatia probably will not be able to pay almost \$300 million in debt due this month and next month, which will test Yugoslavia's new centralized system for ensuring repayment of foreign debts. Under measures passed by the federal assembly two weeks ago, the National Bank is obligated to cover the debt and attach Croatia's foreign exchange earnings. Croatian authorities, who were among the strongest regional opponents of the system, have asked that a federal ban on the export of oil, oil derivatives, natural gas, and chemical fertilizers be lifted to give the republic a better chance of repaying the debt. 

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**Comment:** The National Bank is likely to act before Western banks sign a financial aid agreement next month, in order to establish the confidence of Western lenders in the new repayment mechanism. The government probably will be reluctant to take all of Croatia's hard currency. It also is unlikely to lift the ban on strategic exports, because domestic supplies are tight. 

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## US Facilities in Greece



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**Special Analysis****GREECE-US: The New Base Agreement**

*The successful conclusion yesterday of US-Greek talks on a Defense and Economic Cooperation Agreement wraps up nearly 10 months of tough negotiations. Prime Minister Papandreou's decision to initial the draft text—in the face of possible continued reservations of some of his Socialist Party advisers—almost certainly reflects his desire to put the issue to rest and to refocus government attention on other domestic and foreign policy issues. The Communists are likely to protest the accord, but Papandreou probably will try to blunt their criticism by highlighting US "concessions." He also will claim that the agreement amounts to a timetable for the removal of the bases.*

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The draft text outlines in general terms the scope and purpose of a new base agreement, thereby satisfying the Greek Government's desire for a framework that covers the political aspects of the security relationship. The accord focuses on the status of US forces in Greece, command and control responsibilities at the bases, access to facilities, and defense assistance and cooperation.

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The agreement leaves technical arrangements regarding specific installations and operations, however, to be worked out in lower level negotiations.

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As it stands now, operations at the bases will continue under the terms of existing arrangements until modified or ended by mutual agreement.

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25X1**Domestic Reaction**

The base accord has to be submitted to the parliament for approval, but, with party stalwarts presumably on board, Papandreou will have little trouble obtaining ratification. Both the military and President Karamanlis will be relieved that an agreement finally has been initialed.

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Language in the agreement that Athens can interpret as a US commitment to maintain a balance of military forces in the Aegean as well as a US promise to increase military aid to \$500 million is likely to satisfy the majority of Greeks. Opinion polls indicate that most are

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either indifferent to or favorably disposed toward the US bases so long as the US is willing to meet Greek security interests with regard to Turkey. [redacted]

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The major opposition party, the conservative New Democracy, almost certainly will criticize the new agreement as less favorable to Greek interests than draft texts negotiated during its tenure in power. Nevertheless, it probably is relieved that an agreement has been concluded. [redacted]

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The harshest attacks are likely to come from the Communists, who are expected to stage demonstrations. Papandreou will try to mute their criticism by pointing to Greek "gains" in the accord and by claiming that the duration clause amounts to a timetable for the removal of the bases. Although the agreement allows for its termination after five years, it omits mention of the question of what happens to the bases if written notification of termination is not given. [redacted]

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To appease the left, Papandreou could try to balance the signing of the accord, possibly even by making a state visit to the USSR. [redacted]

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### **Impact On Foreign Relations**

Turkey has said it would welcome the signing of a US-Greek accord. Ankara has made clear, however, that it would be upset by any reference to a military balance in the region and has said that any concessions to Greece on this issue could damage US-Turkish relations. If, as is likely, the Greek Government or press highlight the balance issue, the Turks probably will urge the US to denounce publicly any commitment to a 7-to-10 ratio of military aid to Greece and Turkey. [redacted]

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Greece's NATO and EC partners almost certainly will be reassured by conclusion of the agreement, viewing it as a sign of Greece's basic Western orientation. Athens, in turn, may believe that with the successful conclusion of the agreement its allies will be more tolerant of its outspoken stand on contentious issues in NATO and EC forums. In the past, the Papandreou government has deviated from common Western positions on INF deployment, Middle East policy, and sanctions against Poland. [redacted]

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Papandreou has long expressed a desire to come to the US, and he may expect an official invitation now that an agreement has been initialed. The US practice of meeting with the government leader whose country occupies the post of president of the EC Council of Ministers—a position Greece assumed at the beginning of this month—will reinforce this expectation. [REDACTED]

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**Outlook**

Papandreou is unlikely to tone down his rhetoric. He probably will continue to assert in public that the bases do not serve Greek interests and ultimately will have to go. [REDACTED]

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The conclusion of negotiations, however, should remove some of the tension that has characterized US-Greek and Greek-West European relations in the past 22 months and anchor Greece more firmly to the West. The Prime Minister probably is anxious now to redirect government time and resources toward solving economic problems and will want to play down any further public debate on the bases issue. [REDACTED]

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